



•Mulcahy Accounting & Risk Consulting•

William J. Mulcahy, CIA

November 2, 2016

Christian Sigman
City Manager
City of Brookhaven
4362 Peachtree Road
Brookhaven, GA 30319

Dear Mr. Sigman,

After a number of incidents of payroll errors came to your attention after the resignation of the payroll clerk, you asked me to look into the following related to payroll,

Process
Controls
Policy Adherence

In connection with the review, I obtained and or reviewed the following,

Payroll Register YTD for 2016
Exception Reports
W2s, and 1099s for 2015
Department of Labor letters and documents related to penalties
Current Employee Policy Manual plus the earlier 2013 "Recruitment Package"

In connection with the work, my interviews included the following,

Christian Sigman, City Manager
Steve Chapman, Assistant City Manager
Carl Stephens, Finance Director
Rick Stone, Director of Human Resources
Gary Yandura, Chief of Police
Juan Grullon, Assistant Chief of Police

I performed the work in line with the Statement of Work you and Steve Chapman approved prior to my starting the work.

Producing the payroll and paying employees on pay day the correct amount is the joint management responsibility of Human Resources (Rick Stone) and Finance (Carl Stephens) with the oversight by the Assistant City Manager / CFO Steve Chapman and City Manager Christian Sigman. As soon as the Assistant City Manager / CFO and the City Manager started hearing of errors in paying employees correctly, they did the right thing calling on the Internal Auditor to analyze the situation. I found no exceptions in the HR part of payroll responsibility. **All the exceptions / deficiencies noted below are in the Finance side of the payroll responsibility.**

During the work, and in connection with interviews of the people listed above, my insight is the payroll clerk in Finance was operating with little supervision and without a written policy and procedure document to perform the job of payroll clerk. Then as a result, these various items were prone to inconsistent treatment and errors, such as,

1. Paid Time off (PTO) processing is different depending on whether the employee is exempt or non-exempt. The distinction was not monitored properly and resulted in errors which have now been fixed both currently and retroactively. The errors were highlighted when (a) a number employees were recently reclassified from exempt to non-exempt, (b) when new employees came on board without being trained on this subject, and (c) when the payroll clerk was in the process of leaving and input to pay herself extra unearned PTO.
2. Medical income of \$400 a month is provided to employees after one month of employment, if the employee waives health insurance coverage. This is a popular fringe benefit especially for employees who already have medical insurance coverage elsewhere. However, an edit (be it manual or automated) was not in effect to identify inconsistent application, such as an employee receiving both medical insurance income and being covered by Brookhaven's medical insurance policy.
3. Employees can make changes to their retirement contribution. The changes should become effective on the next payroll. However, Brookhaven did not have a consistent policy with defined dates for uploading the changes to the ADP payroll system. As a result, employee requested changes were not always being made on a timely and consistent basis resulting in errors and time consuming manual corrections. A defined cutoff date before payroll is run, is needed for posting employee change requests to their retirement contributions.
4. Employees can under certain conditions take out loans against their retirement funds. There is an automated method to calculate the repayment and deduct from their paycheck. However, deadlines have been missed, and a manual process has to be performed to set up the repayment. Processing of loans from retirement accounts and setting up the repayment plan needs to be done on a timely basis.
5. Hours worked posting override can be made by the payroll clerk. And in fact, those in Finance and HR with access can perform any payroll function. To promote accountability, access should be restricted to only those functions each person needs.
6. Department of Labor forms have been late and incomplete. Fines have been levied, and there is an ongoing dispute as to if fines have to be paid should it be paid by ADP or Brookhaven.

We jointly developed the following recommendations,

1. Finance needs to write a policy and procedure document with payroll details and deadlines, for the payroll clerk to follow and perform, and so in the absence of a payroll clerk, the payroll process can be performed by another person.
2. Finance needs to attend training classes on payroll provided by payroll vendor ADP. Note HR has been regularly attending these training classes.
3. Finance needs to communicate the meaning of and importance of each step in the process. For example, it was discovered a button called "save" actually does not save the information, you have to hit the button called "save and calculate".
4. Finance Director's review including documented sign off of the payroll, including hours reporting is needed before the payroll is run each time.

Update as of 11/2/16

The inconsistent treatment and errors noted above have stopped in the most recent payrolls. Also the recommendations noted above have been implemented or are in the process of being implemented. However the dispute with the Department of Labor, ADP and Brookhaven still needs to be resolved. I understand, the (new) Assistant City Manager / CFO has the task of resolving this issue which started more than a year before he was hired.

Any questions, let me know.

Sincerely,

William J. Mulcahy

William J. Mulcahy, CIA
City Auditor
City of Brookhaven

Cc Steve Chapman

Response to Payroll Internal Audit by Brookhaven City Manager

Good Morning Bill,

Thank you for sharing with me the payroll audit.

We agree with your observations and recommendations.

We will implement the recommendations and look forward to your follow-up review in 2017.

Please include this email as management's response to the payroll audit when the audit is transmitted to the Mayor and City Council.

Thank you.

CMS

Christian Sigman
City Manager

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